

**IN THE UNITED STATES PATENT AND TRADEMARK OFFICE**

In re application of:

NEIL SCHLOSS ET AL.

Group Art Unit: 3691

Examiner: Olabode Akinola

Serial No.: 09/919,532

Filed: July 31, 2001

For: FINANCING OF LOANS

Attorney Docket No.: 81074349 (FMC 1704 PUSP)

**DECLARATION UNDER 37 C.F.R. § 1.131**

Mail Stop Amendment  
Commissioner for Patents  
U.S. Patent and Trademark Office  
P.O. Box 1450  
Alexandria, VA 22313-1450

Sir:

1. We, Neil Schloss, Elizabeth S. Acton and Malcolm S. Sutherland, are the inventors of the subject matter disclosed and claimed in U.S. Patent Application Serial No. 09/919,532 and filed on July 31, 2001, otherwise referred to as “the ‘532 application.”

2. The ‘532 application claims the benefit of United States provisional application Serial No. 60/222,456, filed on August 2, 2000, otherwise referred to as “the ‘456 application.

3. The subject matter disclosed and claimed in the ‘532 application, which receives the benefit of the filing date of the ‘456 application, was conceived and actually reduced to practice prior to July 28, 2000, the effective reference date under 35 U.S.C. § 102(a) of “Walk away from the wild side - European banks shield their loan portfolio from credit risk - Deutsche bank likes synthetic collateralized loan obligations,” hereinafter referred to as WSJ.

4. On information and belief, Exhibit A, which is attached to this Declaration, is a copy of a document, dated July 18, 2000, which is entitled "Project Poly Mae."

5. The document shows that the claimed subject matter was conceived prior to July 28, 2000.

6. The draft shows that the claimed subject matter was in existence and worked for its intended purpose prior to July 28, 2000, confirming an actual reduction to practice.

7. We acknowledge that willful false statements and the like are punishable by fine or imprisonment, or both and may jeopardize the validity of the application or any patent issuing thereon.

8. We acknowledge that all statements made are of our own knowledge and are true and that all statements are made on information and believed to be true.

9. We declare (or certify, verify, or state) under penalty of perjury.

Date: 11/19/07

Neil Schloss  
Neil Schloss

Date: \_\_\_\_\_

\_\_\_\_\_  
Elizabeth S. Acton

Date: \_\_\_\_\_

\_\_\_\_\_  
Malcolm S. Sutherland

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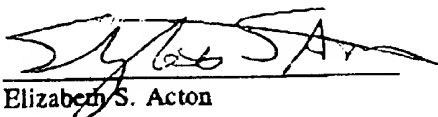
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Date: \_\_\_\_\_

\_\_\_\_\_  
Neil Schloss

Date: 11-24-07

  
Elizabeth S. Acton

Date: \_\_\_\_\_

\_\_\_\_\_  
Malcolm S. Sutherland

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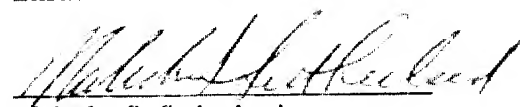
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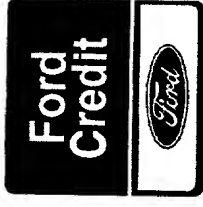
\_\_\_\_\_  
Neil Schloss

Date: \_\_\_\_\_

\_\_\_\_\_  
Elizabeth S. Acton

Date: 8/19/07

  
\_\_\_\_\_  
Malcolm S. Sutherland



# Presentation to Rating Agencies

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*Project Polly Mae*

*July 18, 2000*

EXHIBIT A

Proprietary

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## Vision

*Develop a model for the sale of  
prime auto loans which  
achieves complete risk transfer  
and fully separates the assets  
from the balance sheet*

## Strategic Objectives

- Enhance liquidity
- Achieve complete risk transfer—free up equity dedicated to prime auto loan portfolio
- Reduce size of balance sheet

## Proposal

- Proprietary new business model
  - ▶ Analogous to mortgage industry
  - ▶ Whole loan and ABS purchaser have no explicit or implicit recourse to originators
- Frees up significant equity while enhancing liquidity
- Reduction in income while improving returns and shareholder value
  - ▶ Pay investors to take risk
- Executable
- Requires Rating Agency concurrence to equity credit



## Summary

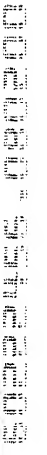
### *Prime Auto Loan Marketing Association ("Polly Mae")*

- An independent marketing and branding entity
- Sets, maintains, and markets uniform standards
- Qualifies originator and servicer participants
- Re-underwrites all eligible collateral
- Purchases uniform prime auto loans and sells them in the secondary market
  - ▶ In securitized form
  - ▶ As whole loan pools
- A repeatable, predictable process and product for originators and investors

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## Potential Originators into Polly Mae

- OEM Finance Companies
  - ▶ DaimlerChrysler
  - ▶ GMAC
  - ▶ Honda
  - ▶ Nissan
  - ▶ Toyota
- Commercial Banks
- Credit Unions
- Internet Banks / Finance Companies
- Annual top-tier prime auto loan origination volume of approximately \$100 billion

## Collateral Pool: Prime Auto Loans

- Initially target top tier credits
- Low loss history
  - ▶ Predictable loss and delinquency characteristics
  - ▶ Predictable prepayments
  - ▶ Long history
- Clear underwriting standards
- Minimal servicing requirements
- Marketable in volume, and repeatable
  - ▶ Developed investor base
  - ▶ New investor base

## Polly Mae

- Cooperative owned by participants
  - ▶ Multiple originators flowing through assets to company (no originator greater than 50% of volume)
  - ▶ Independent management team and Board of Directors
- Functions
  - ▶ Marketing & Branding
  - ▶ Qualifying originators and servicers
  - ▶ Setting and maintaining uniform standards
  - ▶ Re-underwriting collateral
  - ▶ Facilitates sales to investors
  - ▶ Auditing and contract testing
  - ▶ Monitoring and enforcing reps and warranties
- Master Servicer
  - ▶ Manages and coordinates activities of loan sub-servicers
  - ▶ Generates monthly servicing statements for investors and originators

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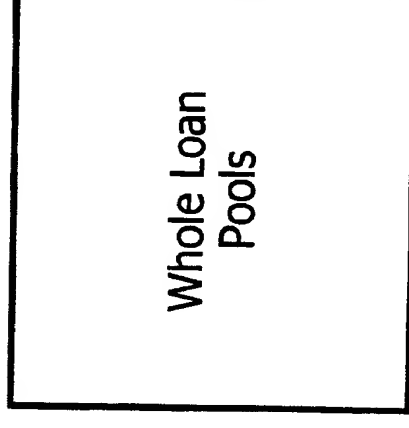
## Structures Sold by Polly Mae

- Structured ABS
  - ▶ Traditional Owner Trust
  - ▶ Sale of all cash flows AAA through first loss
  - ▶ No recourse to originators

Owner Trust

AAA
A
BBB
BB
First Loss Piece

- Whole Loans
  - ▶ Sale of complete pool of assets
  - ▶ No recourse to originators



## Benefits

- Increase liquidity
- Transfers risk by selling every cash flow
- Breaks implicit recourse through multi-originator cooperative arrangement
- Strong investor demand—fits investor rationale
- Reduces size of originator's balance sheet

## Increase Liquidity

- Securitizations including public (AAA through BBB) and private (BB and first loss) tranches
- Whole loans marketed directly to investors and through participations
- Program for selling high-quality automotive retail whole loans
- Estimated annual Polly Mae volume \$30 to \$50 billion (\$60-\$100 billion outstanding in "steady state") including ABS and whole loans
- Targeting monthly issuance on a predictable schedule
- Incremental funding source to Ford Credit's existing securitization (ABS and whole loan) and unsecured debt programs



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(\$ in millions)

# Volume Breakdown by Risk Tranche

Owner Trust

AAA
A
BBB
BB
First Loss Piece

Annual Volume	\$40,000	
Securitization	50%	\$20,000
Rating		
AAA	94%	\$18,800
A	3	600
BBB	2	400
BB	1	200
1st Loss	1	200
Proceeds	101%	\$20,200

Whole Loan Pools
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Whole Loans	50%	\$20,000
Proceeds	101%	\$20,200

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## Risk Transfer: Achieved by Selling Every Cash Flow

- Sell all cash flows from automotive loans
  - ▶ Eliminates prepayment, credit and funding risk
  - ▶ No residual economic exposure
  - ▶ No explicit or implicit recourse to originators
- Develop market pricing mechanism based on explicit loan characteristics
  - ▶ Complete disclosure
  - ▶ Well-accepted valuation parameters
  - ▶ Educated buyers
- Enable efficient pricing of risk characteristics embedded in whole loan pools and security tranches

## **We Believe Polly Mae Breaks Implicit Recourse**

- Multi-originator platform in the form of industry cooperative with no originator representing more than 50% of total volume
- Co-mingled originator assets in every securitized pool
- Investor expectations based exclusively on underwriting and servicing criteria
- Structure minimizes incentive to support non-performing assets

## Why Would Investors Be Interested?

- Easy product to understand and re-engineer
- High degree of liquidity (comparable to mortgage market)—consistent flow of both structured securities and whole loans
- Auto loans are fungible between whole loans pools and securitization
- Transparent loan characteristics—Polly Mae “stamp of approval”
- New name

## Investor Interest—Auto ABS

- Investors are continuously searching for a high quality, short duration asset
- Internal investment guidelines impose limits on name concentration—Polly Mae considered new name
- Limited supply of high quality auto ABS
  - ▶ Largest banks have cut back public issuance
- Investor meetings revealed a strong demand for auto ABS
  - ▶ Low probability of default and consistent severity of loss
  - ▶ Low historical default rate variability
  - ▶ Little to no prepayment volatility

## Investor Interest—Auto ABS (cont.)

- Strong and growing demand for lower-rated securities (non-investment grade)
  - ▶ Money managers are searching for yield in asset classes that have strong historical performance
  - ▶ Growing collateralized bond obligations (CBO) ABS market
  - ▶ Investors re-underwrite to determine credit
  - ▶ Upcoming changes to ERISA regulations
- Lack of first loss classes available to investors (historically dominated by mortgage conduit issuers)
  - ▶ Slowdown in mortgage refinancings
  - ▶ Expansion of the GSEs' criteria have reduced product supply
- Short duration of auto ABS first loss classes is highly desirable as contrasted to either mortgage first loss classes or CBO equity

## Investor Interest—Whole Loans

- Many banks and credit unions are still looking to buy high quality assets with an attractive risk/reward profile
  - ▶ Unable to originate themselves—many have exited the indirect auto loan market
  - ▶ Competitive pressures have resulted in unfavorable credit, new/used mix, and pricing, consequently reducing risk adjusted returns
  - ▶ Inability to diversify demographics
- Money managers and insurance companies have expressed strong interest in auto whole loans—augmenting their shrinking mortgage whole loan portfolios

## Financial Implications for Ford Credit

<ul style="list-style-type: none"><li>■ Smaller balance sheet (up to \$50 billion)</li><li>■ Reduced annual pre-tax income (approximately \$200-\$250 million)</li><li>■ Higher after-tax return on equity and increased shareholder value</li><li>■ Lower leverage on remaining assets (consistent with risk-based equity methodology)</li><li>■ Incremental liquidity source</li></ul>	<div><div>Ford Credit's Year-End 1999 U.S. Retail Asset Mix*</div><div><div><div>Tier 0-1 67% \$45 billion</div><div>Tier 2 19% \$13 billion</div><div>Tier 3-4 14% \$9 billion</div></div><div><div></div><div></div><div></div></div><div>* Estimated</div></div></div>
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## Conclusions and Key Questions

### *Ford Credit Conclusions*

- Polly Mae is a new business model for the sale of prime auto loans to meet the following objectives:
  - ▶ Enhances liquidity
  - ▶ Achieve complete risk transfer for its participants—freeing up equity dedicated to prime auto loan portfolio
  - ▶ Reduce size of originator's balance sheet

### *Rating Agency Questions*

- What structural enhancements (if any) do you recommend to achieve our stated objectives?
- How much equity is freed up as a result of Polly Mae's structure?

## Timetable and Action Plan

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Preliminary Investor Meetings	Complete
Legal/SEC/Accounting Issues Resolved	Complete
Contact & Review with Rating Agencies	Week of 7/17
Sign-up Originator Participants	July/August
Work with Agencies to Refine Polly Mae	Aug./Sept.
Implementation Plan	September
Investor Due Diligence and Education	4 <sup>th</sup> Qtr. 2000
Polly Mae Operational	1 <sup>st</sup> Qtr. 2001